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# **FUNDING THE YEAR 2000 CONVERSION**

**A Report on ED's Y2K Cost Estimates**

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## **FINAL AUDIT REPORT**



**Audit Control Number 11-80011  
December 1998**

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Our mission is to promote the efficient  
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U.S. Department of Education  
Office of Inspector General  
Washington DC Field Office

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**MEMORANDUM**

TO : Donald Rappaport  
Chief Financial Officer  
and Acting Chief Information Officer

FROM : Jim Cornell  
Area Manager, Office of Inspector General

SUBJECT : FINAL REPORT  
FUNDING THE YEAR 2000 CONVERSION: A Report on ED's Y2K  
Cost Estimates  
ACN: 11-80011

This is our subject final report on The Department's cost estimates for the Year 2000 Project. We received your office's comments regarding the findings in our draft audit report and have included them and our response in this final report.

Please provide us with your final response to each open recommendation within 60 days of the date of this report indicating what corrective actions you have taken or plan, and related milestones. In accordance with Office of Management and Budget Circular A-50, we will keep this audit report on the OIG list of unresolved audits until all open issues have been resolved. Any reports unresolved after 180 days from date of issuance will be shown as overdue in the OIG's Semiannual Report to Congress.

Please provide your Financial Services Post Audit Group and the Office of Inspector General/Planning, Analysis and Management Services Staff with semiannual status reports on corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

We appreciate the cooperation given us in the audit. If you have any questions, please call me at 205-9538 or Jack Rouch at 260-3878

# **FUNDING THE YEAR 2000 CONVERSION**

## **A Report on ED's Y2K Cost Estimates**

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### **TABLE OF CONTENTS**

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EXECUTIVE SUMMARY .....	1
BACKGROUND .....	3
AUDIT RESULTS .....	4
ED's Estimates May Not Reflect Costs to be Incurred .....	6
Contracts Obligated from Program Administration Funds ....	9
Impact of Y2K Project on Other Operations .....	10
RECOMMENDATIONS .....	11
OBJECTIVES, SCOPE, AND METHODOLOGY .....	12
STATEMENT ON MANAGEMENT CONTROLS ....	12
MANAGEMENT'S COMMENTS .....	13
Appendix A - DEPARTMENT'S RESPONSE.....	14

## Executive Summary

We reviewed ED's cost estimates for addressing the Year 2000 problem at the U.S. Department of Education. The Office of Management and Budget (OMB) requires ED to report its cost estimates for fiscal years 1996 through 2000 in quarterly reports addressing its progress on addressing the Y2K problem. This audit follows up our previous report *The Status of the U.S. Department of Education's Readiness for the Year 2000* in which we reported that ED needed to develop accurate and supported Y2K cost estimates.

We conducted our audit to determine the reliability of the Y2K cost estimate reported in ED's August 1998 Y2K quarterly progress report. We also determined the sources of funding for Y2K costs incurred in FY 1998 and attempted to determine what effects the Y2K project had on other planned information technology projects.

### *ED Developed a Process for Estimating Y2K Costs*

The Y2K Project Office (Project Office) implemented a process for developing Y2K cost estimates required by OMB. A contractor assisted the Project Office in accumulating estimated costs from ED's offices and preparing the May 1998 estimate of \$34 million. Accumulated costs for each system was input into the automated inventory of systems maintained by the contractor. In its August 1998 quarterly report, ED reported a total of \$38 million in anticipated costs.

### *Reliability of ED's Estimate*

We could not determine that the August 1998 estimate of \$38 million reasonably reflects the actual costs that ED would incur in its efforts to prepare for the Year 2000. The strength of the estimate is negatively impacted by 1) offices not following the prescribed methodology; 2) offices not updating estimates to reflect actual activity; and 3) uncertainties associated with contingency planning.

### *Source of FY 1998 Expenditures*

ED did not receive significant funding earmarked for the Y2K renovation effort and funded the costs with existing appropriations. Because ED did not update its estimates to reflect actual activity, we were unable to verify the total Y2K costs actually incurred in FY 1998 and allocated to specific appropriations. However, we reviewed contract documentation for the Office of Postsecondary's eleven critical systems and found that Y2K related contract obligations were allocated to the following appropriations: Department Management Program Administration, Federal Family Education Loan Program Administration, and Federal Direct Student Loan Program Administration.

### *Impact on Departmental Operations*

The absence of a capital planning and investment control process prevented us from evaluating the true impact of the Y2K conversion on other areas of the Department.

However, the diversion of funds to the Y2K project has delayed ED's efforts to consolidate SFA systems to a new data center.

### *Recommendations*

We are recommending the Project Office strengthen the Y2K cost estimation process by 1) issuing additional guidance; 2) adjusting FY 1998 costs to actual expenditures; 3) reviewing supporting documentation; 4) requiring Y2K office coordinators to approve costs reported in the database; and 5) include a portion of the cost of replacement of personal computers.

We are recommending the Project Office coordinate the development of a cost estimate for implementing contingency plans and coordinate a funding strategy to ensure that costs, including contingencies, are sufficiently funded. Cost estimates for contingency plans should reflect the risks of Y2K failures impacting various business functions and the likelihood that contingency plans will need to be enacted.

### *Management's Response*

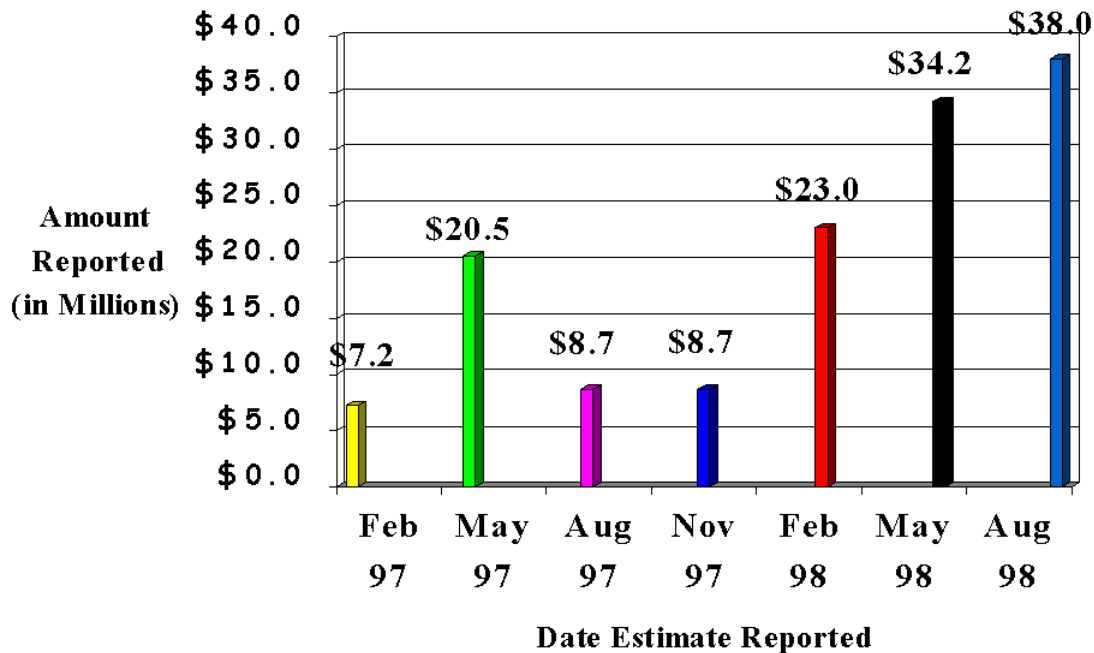
Management's response to our draft report is included as Appendix A. Management concurred with five of our seven recommendations. In many cases, management stated that action has already been taken or is planned. A summary of management's disagreements and our response to them is included on page 13 of this report.

## Background

The Office of Management and Budget (OMB), in its January 1998 memorandum M-98-02, requires the U.S. Department of Education (ED) to provide Year 2000 (Y2K) quarterly progress reports on fixing Year 2000 (Y2K) difficulties. In its progress report, ED must report its estimates of Y2K information technology costs for fiscal years 1996 through 2000. In its first progress report in February 1997, ED reported a total estimated cost of \$7.2 million. Projected costs increased to \$38 million in its most recent report in August 1998. (See Exhibit 1).

Exhibit 1

### ED's Y2K Cost Estimates



In our March 1998 report *The Status of the U.S. Department of Education's Readiness for Year 2000* we reported that ED needed to develop an accurate and supported Year 2000 cost estimate. Management concurred with our recommendation and replied that it had completed its cost estimate and planned to review cost estimates for each system as part of the monthly tracking process. The Year 2000 Project Office (Project Office) is responsible for gathering cost data from each of the principal offices and summarizing the cost information for inclusion in the OMB quarterly report.

## Audit Results

The Department developed and implemented a process for estimating Y2K cost project costs required to be reported quarterly to OMB. Assisted by a contractor, the Project Office accumulated projected costs for each system from ED's offices and prepared the May 1998 estimate of \$34 million. The contractor entered these costs into its new automated systems inventory to allow for the tracking of costs by individual system. This process was an improvement from previous estimates that were not supported by system level detail. In its August 98 quarterly report, ED reported \$38 million in anticipated costs.

### *Project Office Provided Reasonable Guidance for Estimating Costs*

The Project Office issued reasonable guidance to ED's offices on how to develop estimates of the costs expected to be incurred as a result of ensuring its systems portfolio is ready for the Year 2000. The guidance required offices to produce estimates for all of the systems they operate. The guidance stated that these estimates should capture all relevant costs such as:

<u>Labor</u>	Fully loaded employee costs where ED employees perform identified tasks with Y2K project phases.
<u>Services</u>	Costs associated with the procurement of contractor or vendor supplied resources.
<u>Material</u>	Costs associated with the procurement of equipment/devices, products and supplies.

The Project Office also issued guidance requiring ED offices to provide the Project Office liaisons with any changes to the costs amounts included in the systems database. Examples of events that could result in updates to cost estimates included:

- An invoice is paid for an amount that differs from the amount obligated;
- A validation test uncovers the need for additional work;
- Planned renovation of a system is avoided by consolidating it into another system;
- Price negotiations occurred after a previous estimate was made; and
- Independent Validation and Verification was added to the plan.

### *OIG Conclusions on Objectives*

We made the following conclusions on our audit objectives:

- **Reliability of ED's Estimate:** We could not determine that the August 98 estimate of \$38 million reasonably reflects the actual costs that ED will incur in its efforts to prepare for the Year 2000. The strength of the estimate is negatively impacted by 1) offices not following the prescribed methodology; 2) offices not updating cost

estimates to reflect actual activity; and 3) uncertainties associated with contingency planning.

- **Source of FY 1998 Expenditures:** ED did not receive significant funding earmarked for the Y2K renovation effort. The Department financed FY 1998 costs from existing appropriations for Department Management Program Administration, Federal Family Education Loan Program Administration, and Federal Direct Student Loan Program Administration.
- **Impact on Department Operations:** We were unable to determine the impact of Y2K project funding on other Department operations because ED has not implemented a capital planning and investment control process. We were informed, however, that the expense of the Y2K project resulted in the delay of ED's efforts to consolidate SFA systems to a new data center.



## ED's Estimates May Not Reflect Costs to be Incurred

While ED improved its processes for developing Y2K project cost estimates, we are unable to determine that ED's recent estimate of \$38 million reflects the actual costs that ED will incur. The reliability of the estimate was negatively impacted by 1) offices not following the prescribed methodology; 2) offices not making updates to reflect actual activity; and 3) uncertainties associated with contingency planning.

### *Offices Did Not Follow the Prescribed Methodology*

Although the Project Office issued cost guidance and maintains the automated database, it does not evaluate the cost information provided by ED offices. We found two material instances where ED offices did not follow applicable guidance resulting in the misreporting of cost estimates.

- Office of Postsecondary Education: We found that both the May 98 and August 98 estimates for OPE mission critical systems excluded in-house labor costs in excess of \$1.17 million. OPE's original cost submission to the Project Office included labor costs for mission critical systems totaling \$465,000. However, OPE excluded labor costs when it submitted updated estimates in May 98 for inclusion in the OMB progress report. This update included only anticipated contract costs. To determine how material labor costs were for OPE mission critical systems, we requested the names, salaries, and anticipated time allotments for all employees spending greater than 25 percent of their time on Y2K activities. Based on information provided, we calculated a total cost of \$1.17 million in in-house salaries that were excluded from the mission critical cost estimates. This estimate excludes benefits that should be included in the fully loaded rate.
- Office of Intergovernmental and Interagency Affairs (OIIA): OIIA overstated the contract costs associated with the Goals 2000 Database and the M204 Database by approximately \$1.2 million. OIIG staff stated that they included the entire cost of contracts associated with these systems rather than the portion attributable to Y2K. This error was communicated verbally to a Project Office team member in July 1998, but the database was not corrected for the August 98 report.

We also noted many cases where systems included in the database show no costs associated with Y2K conversion. Y2K liaisons from three offices provided reasons why costs were not reported for individual systems. One reason is that the system is operated by another agency that bears the cost of renovation (i.e. the automated SF-52 system maintained by the Office of Interior). Another reason was that the system was assessed as compliant or converted with minimal cost (i.e. a Lotus 123 spreadsheet was converted to an Excel spreadsheet.) A third reason was that the Y2K work was being performed by the Department's Office of Chief Information Officer at no additional cost to the individual office.

As part of its Y2K preparation, ED is replacing approximately 2000 PCs. Approximately 1700 of the new PCs are being leased and the remaining are being purchased. The PCs are expected to cost ED approximately \$3 million over their three year anticipated life. Although the Project Office's original guidance required offices to include the cost of PC replacements, a later decision was made to exclude these costs from the Y2K cost estimate. Since ED is accelerating the replacement of computers to address the Y2K problem, a portion of this cost should be attributed to the Y2K cost estimate.

*Offices Did Not Make Updates to Reflect Actual Activity.*

Guidance issued by the Project Office required offices to report updates based on actual activity. We were informed that the Project Office met monthly with ED's offices to discuss Y2K status and this meeting provided a forum for updating costs. During our audit we found that in many cases, ED offices did not revise costs to reflect actual events or did not provide updated costs to the Project Office for inclusion in the progress report. Specifically, we found:

- Thirteen of ED's sixteen offices included in the systems database made no changes in their cost estimates between the May 98 and August 98 progress reports.
- OPE did provide updates to the Project Office, however we found that these updates did not reflect actual contracting activities. For example, the August 1998 progress report included estimated FY 1998 contract costs for its mission critical systems amounting to \$18.1 million. However, OPE provided us with revised FY 1998 planned expenditures amounting to only \$11 million. Based on these revised figures, FY 1998 contract costs included in the latest progress report were overstated by \$7.1 million. This difference in fiscal year 1998 raises concern about the validity of contract cost estimates for FY 1999 and 2000.
- The Office of Chief Financial and Chief Information Officer (OCF/CIO) provided OIG with an updated estimate for EDLAN that showed an increase in projected labor costs of \$685,000. OCF/CIO also provided OIG with an updated estimated for EDCAPS that reported an increase of \$77,000 in labor and contract costs. These updates had not been reported to the Project Office and were not included in the August 1998 progress report.
- On August 26 we received a revised cost estimate for the Project Office in the amount of \$9.48 million. This estimate exceeded the Project Office's cost estimate of \$8.25 million included in the August 1998 report by \$1.23 million. We were informed that this revised estimate reflected a realization that the Y2K Project Office would continue its activities into most of the year 2000 including finishing up systems renovations, testing of data exchanges, outreach, contingency planning, and responding to audits.

*Uncertainties Associated with Contingency Planning*

ED recently began efforts to prepare contingency plans to address potential disruptions caused by the Y2K problem. Within OPE, this process included the creation of seven teams addressing different student financial aid business processes. ED expects to complete the contingency plans by January 1999 and perform testing by March 1999. The Project Office has included \$4 million in its cost estimate to cover contingency costs. We cannot determine whether this amount is reasonable until ED finalizes its contingency plans. Estimated Y2K project costs could be significantly impacted by the costs associated with creating and implementing contingency plans.

## Contracts Obligated from Program Administration Funds

ED did not receive significant funding earmarked for the Y2K renovation effort. In its FY 1998 budget justification, ED requested \$3 million to “start the needed modifications.” In December 1997, OMB apportioned \$500,000 of existing Department Management Program Administration appropriations specifically to be spent on “Year 2000 Activities.” In May 1998, ED requested, and OMB subsequently approved, a reapportionment increasing funds earmarked to Y2K activities to \$1.1 million.

Because ED did not update its estimates to reflect actual activity, we were unable to verify the total Y2K costs actually incurred in FY 1998 and allocated to specific appropriations. However, we did perform procedures to determine which appropriations were used to fund Y2K contract related obligations for OPE’s eleven mission critical systems affecting student financial aid. We reviewed contracting documents and found \$10.5 million in Y2K related contract obligations. We identified the appropriation source for \$10.1 million of these obligations as follows:

- **Department Management Program Administration Fund** This fund was used to obligate \$2.5 million or 24.0 percent of OPE mission critical contract costs. The appropriation funded all Y2K contract obligations for the Campus-Based System and the Pell Grant Recipient System. Additionally, the appropriation provided partial funding for the Postsecondary Education Participants System (PEPS) and the Central Processing System (CPS).
- **Federal Family Education Loan Program Administration Fund** This fund was used to obligate \$3.8 million or 36.4 percent of OPE mission critical contract costs. The appropriation funded Y2K contract costs of the Federal Family Education Loan Program.
- **Direct Loan Program Administration Fund** This fund was used to obligate \$3.8 million or 36.3 percent of OPE mission critical contract costs. ED used the appropriation to fund all Y2K contract costs for the Direct Loan Central Database System, the Direct Loan Servicing System, the Direct Loan Origination System, the Multiple Data Entry System, the National Student Loan Database System and the Title IV Wide Area Network.

We were unable to specifically identify the appropriation source for an additional \$347,414 or 3.3 percent of OPE mission critical contract costs because the Y2K related task orders were included with other contract activity within a much larger obligation action. The total obligation was funded by the three appropriations above, but was not allocated to the specific task orders.

## Impact of Y2K Project on Other Operations

Because the Department has not yet implemented a capital planning and investment control process, we were unable to evaluate the effect that funding the Y2K project had on other information technology investments. Existing funds typically used to fund development and maintenance of ED's information technology were used to fund the Y2K project, however we could not determine what specific information technology activity was sacrificed due to the diversion of resources to the Y2K project.

In our March 1998 report *The Status of Education's Implementation of the Clinger-Cohen Act* we reported that ED had not yet implemented a capital planning and investment control process. We also reported that ED's Information Management Strategic Plan, required by 44 USC 3506(b)(2) had not been revised since it was issued in draft in April 1996. Under the Clinger-Cohen Act, the capital planning and investment control process should provide for the selection, management and evaluation of information technology investments. The Act requires the process to be integrated with the processes for making budget, financial, and management decisions. Under such a process, management could have tracked the investments approved for funding and evaluated the risks of reducing funds for other projects as necessary funding for Y2K costs were identified.

During interviews conducted with ED personnel, we asked what sacrifices the Department was making as a result of the costs associated with the Y2K project. Department managers informed us of the following sacrifices:

- OPE delayed its planned consolidation of eleven Student Financial Aid systems to a new data center in Meriden, Connecticut. The National Student Loan Data System and the Postsecondary Education Participants System were transferred to the data center. Three additional systems scheduled for transfer in FY 1998 were delayed because of the Y2K project. The Pell Grant Recipient Management System and the Campus-Based System are now scheduled to transfer in November 1998 and the Central Processing System is now expected to transfer in December 1998 or early next year.
- OPE delayed planned enhancements to its web page, including 1) the ability to make on-line corrections to the Free Application for Federal Student Aid; 2) the implementation of an OPE customer service web page; and 3) the ability for students to consolidate their student loans via the web.
- Education offices were responsible for funding the cost of replacing noncompliant PCs. Several offices canceled the planned purchase of additional equipment to fund the replacement of noncompliant PCs. Additionally, the Office of Special Education and Rehabilitative Services cut travel funds to help fund the PCs.

## Recommendations

We recommend the Project Office:

- 1) provide additional guidance to ED offices concerning the maintenance of supporting documentation. This guidance should include requirements to document the calculation of labor costs. The guidance should also require offices to correlate and compare contract cost estimates to actual contract expenditures or obligations and estimated future contract expenditures based on planned Y2K activities.
- 2) require ED offices to adjust FY 1998 estimated costs to actual expenditures before inclusion in the next progress report.
- 3) review documentation supporting quarterly cost estimates to ensure that ED offices have followed applicable guidance and have adequate records supporting the cost estimates. To reduce the risk of understatements, the Project Office should discuss with Y2K coordinators the basis for systems reporting no costs.
- 4) require Y2K coordinators to review and approve the costs included in the automated inventory database to ensure that these costs adequately reflect estimates developed by ED offices.
- 5) include in the cost estimate a portion of personal computer replacement costs.
- 6) coordinate the development of an estimate of costs for developing and implementing contingency plans. Anticipated costs should be developed for each contingency plan. The consolidated estimate for contingency plans should reflect the risks of Y2K failures impacting various business functions and the likelihood that contingency plans will need to be enacted
- 7) coordinate a funding strategy to ensure that costs, including contingencies, are sufficiently funded. We suggest a three tier approach as follows:
  - a) ED should earmark a portion of existing program administration funds specifically to address Y2K contingencies.
  - b) ED offices should prioritize other anticipated expenditures from Program Administration funds to provide for the most effective reallocation of existing funds should Y2K costs exceed amounts earmarked.
  - c) ED should be prepared to promptly request emergency funding for unexpected Y2K failures as soon as the need is identified.

## Objectives, Scope, and Methodology

The purpose of our audit was to:

- Determine the reliability of the cost estimate included in ED's August 1998 Y2K quarterly report to OMB;
- Determine the source of funding for Y2K costs incurred in FY 1998; and
- Determine the impact of Y2K costs on other planned information technology projects.

To accomplish these objectives, we focused on ED's cost estimates for its fourteen mission critical systems, as well as estimated costs to fund the operations of the Project Office. These costs comprised 88 percent of the total Y2K cost estimate in the August 14, 1998 OMB report. Sixty-seven percent of the total estimated cost was attributable to the mission critical systems, and 22 percent was attributable to the Project Office operations. The remaining 11 percent of the total cost estimate is attributed to the mission important and mission supportive systems.

To determine the reliability of the cost estimate, OIG reviewed available OMB guidance and gained an understanding of the process used by ED to develop, track and report the quarterly estimates. We reviewed initial cost estimates submitted by ED offices and updates affecting the OMB report. The OIG tests involved interviewing appropriate officials at the principal offices and reviewing available supporting documentation. For eleven of the fourteen critical systems, OIG compared the FY 1998 cost estimates reported in the August 98 quarterly report to actual expenditures and obligations. Additionally, the OIG requested information from program offices on the extent of in-house labor devoted to the Y2K project and determined whether these costs were included in the OMB estimate.

OIG determined the sources of Y2K funding from a review of contract documentation and interviews with personnel from program offices and the Office of the Chief Financial Officer and by a review of contract documentation. To determine effects of the Y2K project on other information technology investments, OIG requested documentation supporting planned investments and conducted interviews with program office staff. The OIG conducted fieldwork at ED's offices in Washington, DC from July to September 1998. The audit was conducted in accordance with government auditing standards relevant to the scope of the review described above.

## Statement on Management Controls

As part of our audit, we assessed ED's system of management controls, policies, and practices applicable to the process for identifying, gathering, tracking, and reporting actual and projected Y2K costs. Our assessment was performed to determine the nature,

timing and extent of our substantive tests to accomplish the audit objectives. For the purpose of this report, the OIG limited its review to the assessment of the significant controls over the reasonability of the cost estimation and reporting process.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the controls. However, the OIG identified weaknesses and recommended improvements for the on-going management of the Y2K cost estimation and reporting process. These weaknesses and their effects are described in the *Audit Results* section of this report.

## Management's Comments

Management's response to our draft report is included as Appendix A. Management concurred with five of our seven recommendations. In many cases, management stated that action has already been taken or is planned.

Management disagreed with our recommendation that the Project Office review documentation supporting quarterly cost estimates stating that they "consider formal cost documentation reviews to be the responsibility of the Office of Inspector General." We reaffirm our recommendation because we believe that ensuring the accuracy and reasonableness of cost estimates is a responsibility of management, especially given that management is required by OMB to submit Y2K cost estimates on a quarterly basis. The ability to provide reliable cost estimates is also foundational to the Department's ability to develop and implement an effective capital planning and investment control process (as called for in Section 5122 of the Clinger-Cohen Act). Our audit found that the reliability of the cost estimate was negatively impacted by ED offices not following the prescribed methodology and not making updates to reflect actual activity. Our recommendation was intended to establish controls within the Department for ensuring the reasonableness of cost information reported to OMB.

Management also disagreed with our recommendation to include in the cost estimate a portion of personal computer replacement costs. Management states that "Although the Year 2000 Steering Committee has made a firm decision that these costs shall not be considered Y2K costs, we have disclosed in our OMB reports that we have replaced personal computers that were not Y2K compliant or BIOS flashable." Management believes that this approach fully discloses the issue without causing confusion over which part was normal replacement cost and which part was Y2K compliance cost. We reviewed the applicable OMB disclosures and found that they do not clearly disclose that reported cost estimates exclude all personal computer replacement costs. Since ED is accelerating the replacement of computers to address the Y2K problem, we continue to recommend that a portion of this cost should be attributed to the Y2K cost estimate.



## Appendix A – Department's Response



### UNITED STATES DEPARTMENT OF EDUCATION

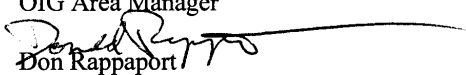
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THE CHIEF FINANCIAL OFFICER

NOV 30 1998

#### MEMORANDUM

**TO:** Jim Cornell  
OIG Area Manager

**FROM:**   
Don Rappaport  
Chief Financial Officer  
and Acting Chief Information Officer

**SUBJECT:** Draft Audit Report, "Funding the Year 2000 Conversion" (ACN 11-80011)

We have reviewed the OIG draft report "Funding the Year 2000 Conversion".

Attachment A contains specific responses to each recommendation in the subject OIG draft report. We appreciate the ongoing interest of OIG in also providing technical assistance on our Year 2000 project. If you have any question, please contact me at 401-0085.

Thanks.

cc: Mike Smith  
Deputy Secretary

Nina Winkler  
Director, Year 2000 Project

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-4300

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## Attachment A

**SPECIFIC COMMENTS  
ON RECOMMENDATIONS****Recommendation #1**

We concur with this recommendation and it has been implemented.

**Recommendation #2**

We concur with this recommendation and it has been implemented.

**Recommendation #3**

We concur with most of this recommendation and have been meeting with principal offices to improve their estimates and documentation. We consider formal cost documentation reviews to be the responsibility of the Office of Inspector General and will support such reviews as requested.

**Recommendation #4**

We concur with this recommendation and it has been implemented. Periodically, we provide the Principal Office Y2K Coordinators with detailed cost estimate information by system from the database and ask them to confirm accuracy or provide adjustments that adequately reflect accurate cost estimates.

**Recommendation #5**

We partially concur with this recommendation. Although the Year 2000 Steering Committee has made a firm decision that these costs shall not be considered Y2K costs, we have disclosed in our OMB reports that we have replaced personal computers that were not Y2K compliant or "BIOS flashable". This approach in reporting fully discloses the issue without causing confusion over which part of this cost was normal replacement cost and which part was Y2K compliance cost.

**Recommendation #6**

We concur with this recommendation. We plan to develop cost estimates for the development and implementation of each contingency plan and a consolidated estimate by February 15, 1999. With respect to implementation cost we consider those costs to be the development of alternative processes and any readiness costs such as training. Actual operations cost in the event of an emergency will be assessed as promptly as possible.

**Recommendation #7**

We concur with this recommendation and have implemented a process to coordinate management of the Y2K budget. We have established a funding strategy and received additional funding to fund existing and known Y2K costs. An additional request is pending and future costs will be updated and reported quarterly.

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ACN: 11-80011

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